

Nikkei Hong Kong PMI™

Private sector conditions deteriorate further in September

Key points:

- Faster declines in both output and new orders
- Chinese orders fall sharply amid rising trade tensions
- Deflationary pressures seen in the private sector

Data collected September 12–25

Business conditions in Hong Kong's private sector continued to deteriorate at the end of the third quarter, with the September PMI survey signalling sharper declines in both output and new orders amid rising trade frictions between the US and China. Notably, new business to China shrank markedly.

Firms remained downbeat about business prospects which, in turn, saw them cutting back on purchasing activity. Deflationary pressures were also reported in both input and output prices. Typhoon-related disruptions meanwhile contributed partially to delivery delays.

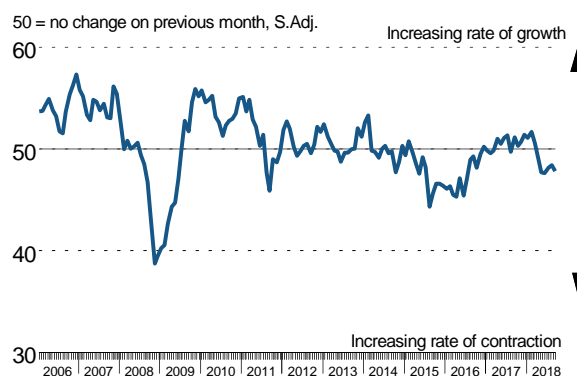
The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** fell from 48.5 in August to 47.9 in September, signalling a further deterioration in the health of the private sector. September PMI data indicated another quarterly decline during the third quarter following a contraction signalled in the second quarter.

The survey brought further signs of softening client demand, with firms pointing to the negative impact of escalating trade tensions on new and future business. Total new orders declined again in September, representing a sixth monthly contraction, as orders from China fell sharply. The pace of reduction in overall new orders was among the steepest seen in the past two years.

Lower sales allowed firms to work through their backlogs. The level of unfinished business declined further, indicating an ongoing lack of capacity pressure which, in turn, weighed on hiring.

Tepid demand conditions pushed firms to further cut back on output, which saw business activity shrink to the greatest extent for just over two years.

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Sources: Nikkei, IHS Markit.

Survey evidence suggested that uncertainty about future economic conditions and rising global trade tensions were the main factors behind the pessimism seen in September. The Future Output Index remained below the no-change level of 50.0, signalling that more firms continued to anticipate lower output in the year ahead than those expecting a rise.

Lower sales saw firms scaling back on purchasing activity which likely contributed to a further decline in stocks of purchases. Notably, inventories of inputs have not increased so far this year. Despite lower appetite for inputs, suppliers continued to face difficulties making timely delivery. There was evidence that recent typhoons and supply shortages had disrupted delivery schedules.

Deflation was reported in September. Overall input costs fell for the first time in over two years, as prices paid for inputs decreased markedly. There were reports of wage inflation, but the survey showed only a mild rise staff costs. Lower input prices provided room for firms to further reduce selling prices as part of efforts to bolster sales. Anecdotal evidence suggested that clients' requests for discounts, a weaker yuan and competitive pressure were all reasons for lower charges. Finally, firms remained pessimistic about future output, with the ongoing US-China trade dispute emerging as a key concern.

Comment:

Commenting on the Hong Kong PMI survey data, **Bernard Aw**, Principal Economist at IHS Markit, which compiles the survey, said:

“Hong Kong’s private sector suffered a further deterioration in business conditions in September as rising trade tensions continued to weigh on demand. Sales to China shrank further. The latest Nikkei PMI survey signalled another contraction in the private sector economy during the third quarter following a deterioration in the previous quarter.”

“Growing uncertainty over future demand saw firms cutting back on input purchases and trimming inventories as part of efforts to conserve capital. There were also efforts to boost sales through price discounting. Meanwhile, employment levels were stable.”

“The latest headline PMI is indicative of GDP growth running below a 2% annual rate in the third quarter.”

-Ends-

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Notes to Editors:

The Nikkei Hong Kong *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 companies. The panel is stratified by company size and by Standard Industrial Classification (SIC) group, based on industry contribution to Hong Kong GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index[™] (PMI[™]) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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